

CHAPTER 8: Loan Certification

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Chapter 8

Loan Certification

Section 1: Federal Stafford Loan Master Promissory Note

The Master Promissory Note (MPN) includes the student's promise to repay his or her Federal Stafford Loan and provides important information about the student's rights and responsibilities with respect to obtaining and repaying the loan. Since the MPN is only a promissory note, the borrower application and school certification processes are separate:

- The student applies for a Federal Stafford Loan using the Free Application for Federal Student Aid (FAFSA).
- The school certifies the student's eligibility to the lender or guarantor via a separate school certification form or its electronic equivalent.

The key benefit of the MPN is the multi-year feature that permits students attending eligible schools to receive multiple loans for multiple enrollment periods, all made from a single promissory note. The multi-year feature is not available to all schools. At this time, only four-year undergraduate, graduate, or professional schools are eligible to use the MPN's multi-year function. For students attending schools that are not eligible to use the MPN's multi-year feature, a new MPN must be completed for each subsequent loan made for a different academic year. See the subsequent section entitled "Multi-Year Process" for more information.

Note: Guidance provided by the U.S. Department of Education (USDE) in the federal *Student Financial Aid Handbook*, Direct Loan and FFEL Programs Reference, indicates that students attending schools that are not eligible to participate in the serial loan feature of the MPN must complete a new MPN for each subsequent loan made for a different enrollment period. However, a regulatory technical correction published in the *Federal Register* on June 29, 2001, permits non-serial eligible schools to make a new loan without a new MPN if the new loan is certified within the same *academic year*. As of the publication of this guide, the Missouri Student Loan Program (MSLP) and other guarantors are reviewing operational implications of this change. Any subsequent guidance relating to a non-serial eligible school's use of the MPN, or loan adjustments at non-serial eligible schools, will be disseminated in a future update to this guide.

Helpful Hints:

- Schools that are not eligible to use the multi-year feature of the MPN must still use the MPN and the associated School Certification process to certify Federal Stafford Loans.
- The Federal Stafford Loan MPN and School Certification Form are available on the MOSTARS web site at the following address:
 - ✓ www.cbhe.state.mo.us/forms/ffelpforms.htm

Samples are located in Appendix F of the *Common Manual*.

- At this time, there is no MPN for the Federal PLUS Loan program.

Other distinctive features of the Federal Stafford Loan Master Promissory Note are highlighted in the discussion that follows.

Borrower Authorizations and Certifications

The following authorizations and certifications appear on the front page of the MPN above the borrower's signature:

- Authorization for the school to certify the borrower's eligibility
- Authorization for the school to transfer loan proceeds to the student's account by electronic funds transfer (EFT) or master check
- Authorization for the school to pay the lender any refund that may be due
- Authorization for the lender, guarantor, or their agents to investigate the borrower's credit record and report information concerning the borrower's loan status to persons and organizations authorized by law to receive that information
- The borrower's request and authorization for deferment and alignment of repayment on all of the borrower's Federal Family Education Loan (FFEL) Program loans that are in repayment
- The borrower's request and authorization for capitalization of unpaid accrued interest on all of the borrower's FFEL Program loans during in-school, grace, deferment, and forbearance periods, as applicable
- Authorization for information sharing about the borrower's loans among schools, lenders, guarantors, and the USDE
- Authorization for the release of loan information by the school, lender, guarantor and their agents to the references listed on applicable loans and

the borrower's immediate family members unless the borrower submits written directions otherwise

- The borrower's certification that he or she will immediately repay any funds that cannot be attributed to educational expenses for attendance on at least a half-time basis
- The borrower's certification that he or she does not owe a refund on a federal grant and is not in default on a federal loan

School Certification

The school certification section has been moved from the promissory note to a separate School Certification Form. Schools utilize the paper School Certification Form or its electronic equivalent to transmit certification information to the lender and guarantor.

The School Certification Form does not include some data elements that were present on the now defunct common Application and Promissory Note for Federal Stafford Loans, i.e., cost of attendance (COA), expected family contribution (EFC), and estimated financial assistance (EFA). Schools are not required to certify these data elements to the lender. However, schools must continue to document, maintain, and produce upon request, information concerning the student's COA, EFC, and EFA.

The lender or guarantor assumes responsibility for matching the School Certification Form to the MPN by comparing key identification data for the student.

Lender Selection

The borrower's section of the MPN includes indication of the borrower's choice of lender.

Borrower Rights and Responsibilities

The school, lender, or guarantor provides the Borrower's Rights and Responsibilities form (including borrower instructions for completing the form and the required notices) with the MPN.

Plain Language Disclosure

The lender provides a Plain Language Disclosure (PLD) form to the borrower in conjunction with *any* subsequent loans approved under an existing MPN.

Helpful Hint:

- The PLD form is on the back of the MSLP's Notice of Loan Guarantee and Disclosure Statement.

Section 2: Roles of the Master Promissory Note Players

Roles of the School:

- Determine the student's eligibility
- Certify the loan in one of the following ways:
 - ✓ Manually, on the School Certification Form
 - ✓ Electronically, using:
 - ◆ Loan application software (for example, e*CLIPS)
 - ◆ Mainframe-to-mainframe transmission
- Update entrance counseling to include information about how the Master Promissory Note (MPN) process is used at the school
- Ensure and document that active or passive confirmation procedures are in place for multi-year loans (see the subsequent section entitled "Multi-Year Process" for more information about confirmation requirements)
- Deliver loan funds to the student

Roles of the Lender:

- Receive the loan certification information and the loan guarantee in either of the following forms:
 - ✓ By paper, in the event of a school submitting a school certification form to the lender (in this instance the lender would transmit the loan to the guarantor for guarantee)
 - ✓ Electronically, in the event of school certification information transmitted electronically by the school. Lenders must be able to receive the certification information electronically from the Missouri Student Loan Program (MSLP).
- Receive the Notice of Loan Guarantee and Disclosure Statement (NOG) in either of the following forms:
 - ✓ A paper NOG mailed by the MSLP
 - ✓ A paper NOG printed by the lender after receiving electronic loan guarantee information
- Determine if an MPN is needed or if a valid MPN is on file:

- ✓ The lender determines whether the school is eligible for the multi-year feature of the MPN
- ✓ If a valid MPN has not been received, the lender may do either of the following:
 - ◆ Mail the borrower a blank MPN for completion
 - ◆ Print and mail the borrower a form-fed, pre-filled MPN for completion
- Collect the MPN:
 - ✓ ATOM lenders must notify the MSLP of the receipt of the valid MPN
- Provide initial loan disclosure information to all borrowers. Much of this information is printed on the MSLP's NOG.
- Provide the Plain Language Disclosure (PLD) to all multi-year loan borrowers. This disclosure information is printed on the back of the MSLP's NOG.
- Fund or disburse the loan funds
- Track the validity of the MPN:
 - ✓ Ensure the borrower receives a disbursement within one year of the date the borrower signed the MPN
 - ✓ Confirm the borrower's continued eligibility for additional loans
 - ✓ Confirm the school's continued eligibility to use the multi-year feature of the MPN
 - ✓ Monitor the promissory note for the 10-year maximum expiration date
 - ✓ Implement procedures that allow the borrower to revoke the MPN upon request
- Upon the school's request print the MPN
- At the school's request assist with confirmation
- Ensure and document that active or passive confirmation procedures are in place for loans made using the multi-year feature of the MPN

Roles of the MSLP

- Guarantee the loan based on the school's certification, which may be submitted using any one of the following methods:

- ✓ Electronically by the school
- ✓ Electronically by the lender
- ✓ Manually via a School Certification Form submitted directly to the MSLP
- Send an electronic response file to the school and lender for electronically submitted loans
- Produce notices of guarantee as follows:
 - ✓ A NOG for the lender's files
 - ✓ A NOG for the lender to send to the borrower (some lenders may print their own NOGs)
 - ✓ At the school's request, a School Notice of Loan Guarantee
- Assist the lender in tracking schools' eligibility to participate in the multi-year feature of the MPN
- Print MPNs upon request as follows:
 - ✓ Upon the school's request for all guaranteed loans
 - ✓ Upon the school's or lender's request by application transmission (for example, the "GP" (guarantee and print) option in CommonLineSM version 4)

Section 3: MPN Multi-Year Process

The multi-year feature of the Master Promissory Note (MPN) enables certain students to obtain additional loans for each new academic year without having to sign a new note. The U.S. Department of Education (USDE) has initially approved the use of the multi-year feature for student populations that are most likely to borrow multiple times – four-year undergraduate, graduate, and professional schools. Eligible schools are not required to use the multi-year function of the MPN. In fact, an eligible school may choose not to use it for some or all of their students.

Helpful Hints:

- Schools should explain its policies on how the MPN is used as part of its student consumer information.
- Schools ***must*** explain how the MPN is used at the school as part of required entrance and exit counseling.

Schools that are eligible to use the multi-year feature of the MPN are those that meet all of the following criteria:

- The school offers as its highest program either a master's degree, doctor's degree, first professional degree, professional certification, or bachelor's degree, as shown on the school's Eligibility and Certification Approval Report from the USDE.
 - ✓ A school that is eligible for the multi-year feature of the MPN should call the MOSTARS Information Center at (800) 473-6757 to determine whether the school is appropriately coded as eligible on the Missouri Student Loan Program's (MSLP) database.
- The school is not subject to an emergency action or a proposed or final limitation, suspensions, or termination action.
- The school is located in the United States.

Helpful Hints:

- If a school is eligible for the multi-year feature, all students at that school are eligible, even students who are not enrolled in a four-year undergraduate, graduate, or professional program.
- The USDE's definition of a State includes the Commonwealth of Puerto Rico, District of Columbia, Guam, American Samoa, U.S. Virgin Islands, and the Freely Associated States.

Single-Year MPN

Student loan borrowers attending schools not authorized to use the multi-year feature of the MPN generally are required to complete a new MPN for each new loan that they receive. In the Federal Family Education Loan (FFEL) Program, a new MPN is ***not*** required if the new Federal Stafford Loan is made within the same academic year.

A non-serial school must submit a new school certification to the MSLP when the student gains eligibility for an unsubsidized Federal Stafford Loan during the same academic year for which only a subsidized Federal Stafford Loan was previously certified. Please see the subsequent section entitled "MPN Q/A", Q/A #10 for more information.

Students, schools, and lenders may also decline to use the MPN's multi-year feature.

Multi-Year MPN

There are several circumstances that would require a borrower who has received multiple loans under an existing MPN to complete a new MPN:

- When a student's FFEL Program lender changes, unless the lender changes as a result of a merger or acquisition
- When the student transfers to a school that is either not eligible or chooses not to use the MPN's multi-year function
- When a student transfers from a school that participates in the Direct Loan Program to a school that participates only in the FFEL Program
- When a school changes its participation from the Direct Loan Program to the FFEL Program
- When the MPN has expired, as determined by criteria described under the subsequent subheading entitled "Revocation of the MPN"

Helpful Hints:

- A new MPN may not be required if the borrower transfers to a school that is eligible to participate in the multi-year feature of the note, provided the school elects to use the multi-year feature for all of its students.
- A new MPN may not be required if the borrower changes guarantors, provided the lender that is authorized to offer additional loans under an existing MPN remains the same.

Revocation of the MPN

Under the terms of the MPN, a lender's ability to make subsequent loans for a borrower under an existing MPN expires upon the earliest of the following events:

- 12 months after the original MPN is signed if no disbursements were made using that MPN, including disbursements that were cancelled or refunded
- 10 years from the date the student signed the MPN or the lender received the MPN
 - ✓ If a portion of a loan is made on or before the date that is ten years after the student signed the MPN, remaining disbursements of that loan can be made.
- The date the lender receives written notification from the borrower that the MPN may no longer be used as the basis for making additional loans
 - ✓ Example: A borrower who completed a bachelor's degree and who does not plan to pursue a graduate degree may notify the lender of the revocation of the MPN.

Confirmation Processes for Subsequent Loans

The school and lender must ensure and document that a process is in place for providing a passive or active confirmation for subsequent loans made using the multi-year feature of the MPN. This process informs the student of the proposed loan types and amounts being awarded for the loan period and is intended to increase the borrower's understanding of his or her loan obligations.

Provided that regulatory requirements and the USDE's guidelines are met, schools have flexibility to determine the desired method and timing for confirmation:

- A school's confirmation process may be part of, supplement, or be completely separate from required notices and disclosures to borrowers.
 - ✓ While a lender's initial disclosure constitutes passive confirmation, it cannot be the only confirmation process supporting the loan. The *school* must ensure that there is another confirmation process in place.
- A school's confirmation process may cover the entire loan or each individual disbursement.
- Other options for the timing of confirmation are discussed in greater detail under "Examples of Confirmation Approaches" below.

Passive Confirmation

Passive confirmation is a process in which the school or lender notifies the borrower of the proposed loan types and amounts. The borrower is required to take action only to reject or adjust the type or amount of the loan. Passive confirmation is sometimes referred to as "notification."

Active Confirmation

Active confirmation is a process in which the school or lender advises the borrower of the proposed loan types and amounts. In all cases, the borrower must take action to confirm the loan type or request a specific loan amount. Active confirmation is sometimes referred to simply as "confirmation."

Examples of Confirmation Approaches

- **Application Stage:** If the school has its own institutional financial assistance application, the application could include a loan request section. The student would use the application to request a loan for a specific amount or for the maximum amount he or she is eligible to receive for the applicable loan period.

- **Packaging Stage:** The school's award letter may include proposed loan amounts and types. The student is asked to do one of the following:
 - ✓ Confirm the assistance awarded by responding to the school's offer (active confirmation)
 - ✓ Only take action if he or she wants to cancel or reduce the loan amount offered (passive confirmation)
- **Pre-Disbursement Stage:** The lender could send a loan approval form to the student. The student is asked to either confirm the offer (active confirmation) or take action only if he or she wants to reduce or cancel the loan (passive confirmation).
- **Disbursement and Delivery Stages:**
 - ✓ The lender issues a disclosure statement and provides instructions to the student on how to cancel or reduce the loan amount.
 - ✓ The student may decline the loan by refusing to endorse a check.
 - ✓ If a loan is disbursed by electronic funds transfer (EFT), the school notifies the student that the funds have been applied to the student's account at the school. The student is advised of the right to cancel or adjust the disbursement amount.
 - ✓ As stated previously, the lender's initial disclosure constitutes a confirmation action. However, it cannot be the only confirmation process supporting the loan. The *school* must ensure that there is another confirmation process in place.

Recordkeeping

- A school must indefinitely retain documentation of any active or passive confirmation process the school uses during each academic year.
- A school must retain a copy of the loan certification or certification data, if submitted electronically, including the name of the borrower.
- While the school is not required to certify cost of attendance, expected family contribution, or estimated financial assistance to the lender, the school must maintain this data and make the information available upon request by the lender, the MSLP, or the USDE.
- Retention periods for loan records are discussed in greater detail in Chapter 17 of this guide.

Helpful Hint:

- See Chapter 9 of this guide for more detailed procedural information about MPN processing using the MSLP's electronic processing system.

Section 4: MPN Q/A

Note: Guidance provided by the U.S. Department of Education (USDE) in the federal *Student Financial Aid Handbook*, Direct Loan and FFEL Programs Reference, indicates that students attending schools that are not eligible to participate in the serial loan feature of the Master Promissory Note (MPN) must complete a new MPN for each subsequent loan made for a different enrollment period. However, a regulatory technical correction published in the *Federal Register* on June 29, 2001, permits non-serial eligible schools to make a new loan without a new MPN if the new loan is certified within the same ***academic year***. As of the publication of this guide, the Missouri Student Loan Program (MSLP) and other guarantors are reviewing operational implications of this change. Any subsequent guidance relating to a non-serial eligible school's use of the MPN, or loan adjustments at non-serial eligible schools, will be disseminated in a future update to this guide.

Q1: What is the status of the common Federal Stafford Loan application?

A1: The common Federal Stafford Loan application was discontinued for loan periods beginning on or after July 1, 2000, and for any loan certified on or after July 1, 2000.

Q2: What is the expiration date of the MPN?

A2: The expiration date of the MPN is August 31, 2002. The OMB number is 1845-0006. Previous versions of the MPN without this expiration date and OMB number must not be used and should be destroyed.

Q3: If a student indicates a desire to borrow a Federal Stafford Loan on the Free Application for Federal Student Aid (FAFSA), will the Student Aid Report (SAR) or Institutional Student Information Record (ISIR) indicate that the student has requested a Federal Stafford Loan?

A3: The FAFSA asks the student, "In addition to grants, are you interested in student loans (which you must pay back)?" The SAR/ISIR contains the student's response to this question. If the student's response is "Yes," the school is expected to process the student's request and proceed with a loan eligibility determination.

Q4: Will the National Student Loan Data System (NSLDS) return information on a SAR or ISIR that denotes an existing MPN for the student?

A4: Yes, but currently ***only*** for the Federal Direct Loan Program.

The ISIR includes fields, captioned “MPN Information,” for a Direct Loan MPN flag, a FFEL MPN flag, and a subsequent field for the Federal Family Education Loan (FFEL) lender code. However, there is no mechanism at this time for FFEL participants to report the existence of an MPN to the NSLDS. Until the 2002-03 award year, the NSLDS FFEL MPN field will not be populated.

For the Federal Direct Loan Program, possible values for the MPN flag include the following:

- **A = Active**
- **I = Inactive**
- **C = Closed**
- **N = No MPN on file**

Q5: Will there be an MPN for Federal PLUS loans?

A5: The MPN is available only for Federal Stafford Loans at this time. The student loan industry submitted to the USDE a draft PLUS loan MPN with a target implementation date in the 2002-03 academic year. As of the publication date of this guide, the USDE has yet to announce if, or when an MPN for Federal PLUS loans would be implemented.

Q6: Is the confirmation process required for a school that is eligible to use the multi-year feature of the MPN but does not use electronic funds transfer (EFT)?

A6: All schools and lenders must ensure and document that a confirmation process is in place for all students who receive subsequent loans under the multi-year feature of the MPN, regardless of the delivery method. A student’s endorsement of the disbursement check is an example of confirmation, but it may not necessarily be the only confirmation method employed by the school or lender for a student whose loan funds are delivered by paper check.

Q7: Since Field 11 on the MPN does not collect the borrower’s requested amount, can the school assume the student requests the maximum amount for which the student is eligible?

A7: The maximum amount that the school may certify is the *lesser* of the following:

- The student’s unmet financial need (in the case of a subsidized loan)
- The student’s cost of attendance (COA)
- The student’s maximum aggregate or annual borrowing limit

- The borrower's requested amount
 - ✓ The MSLP does not require the school to ask the student about the maximum amount of Federal Stafford Loan funds he or she wishes to receive on a school's internal loan request or data sheet. However, if the school chooses to collect a student's requested amount, or if the student makes a specific request as the result of a confirmation process, the school must not deliver a total Federal Stafford Loan amount that exceeds the student's request.

Q8: The USDE does not require the lender to obtain a new MPN to support additional Federal Stafford Loan funds certified during the *same academic year* at schools that are not eligible to use the multi-year MPN function. Has the MSLP implemented this guidance?

A8: Yes. The MSLP adopted this guidance effective retroactively to the school's implementation of the MPN.

Q9: How will loan amounts be increased?

A9: A student who has remaining eligibility may request a loan increase for the same enrollment period for which a loan has already been certified without a new loan certification or a new MPN. The student should contact the school or lender to request an increase, and the school or lender must document the student's request. If the student originally requested a specific amount of loan funds, and if the desired increase exceeds the student's original request, a loan increase may be performed. The school or lender must document the student's revised request.

To process a loan increase, the school or lender can use the CommonLineSM change transaction option or the MSLP Federal Loan Reallocation Change Form (see Chapter 14, Section 4 of this guide for a sample of this form). The MSLP cannot process as an adjustment or increase a new unsubsidized Federal Stafford Loan when the student previously received only a subsidized Federal Stafford Loan for the same period of enrollment. See Q/A #10 for more information.

Helpful Hint:

- The MSLP's procedures for loan increase requests are outlined Chapter 14 of this guide entitled "Changes to the Guaranteed Loan Amount."

Q10: If a student has already received only a subsidized Federal Stafford Loan and wishes to receive an unsubsidized Federal Stafford Loan for the same enrollment period, can the student receive the unsubsidized loan under the existing MPN and school certification?

A10: The unsubsidized Federal Stafford loan must be treated as a new, separate loan requiring a new school certification. This is partly because the MSLP cannot process loan increases that would create a new loan segment.

All schools should certify a new unsubsidized loan through their normal certification process (paper or electronic). Even if the school is ineligible for participation in the multi-year MPN function, a new MPN is not required if the following criteria are met:

- The lender has obtained a valid MPN for the subsidized loan.
- The unsubsidized loan is certified for the same academic year as the subsidized loan.

Q11: If a borrower's subsidized and unsubsidized Federal Stafford Loans certified for the same period of enrollment are not guaranteed on the same day and the school is not eligible for the multi-year feature of the note, are separate MPNs required to be obtained?

A11: No.

Q12: What is the logic of a school's choice to require transfer students to sign a new MPN?

A12: Some schools may choose to establish a policy requiring all transfer students to sign a new MPN to ensure that a valid MPN exists for the loan. The MSLP encourages schools that establish such a requirement to disclose it in the school's written policies that are provided to current and prospective students. Any school wishing to require all transfer students to sign a new MPN should also communicate its wishes to its lender and lender/servicer partners.

Q13: For the second and subsequent loans made using the multi-year feature of the MPN, can the school perform confirmation?

A13: Yes. The confirmation process can be performed by the lender, the school, or both. If the school prefers that the lender perform confirmation, the school should communicate its preference to the lender and work with the lender to establish a mutually agreeable confirmation procedure. In addition, schools have the control to change confirmation processes to meet their needs and those of their students. The lender and the school must document that a confirmation process is in place.

Q14: May a lender disburse funds before receiving a signed MPN?

A14: No. A lender must ensure they have a valid, signed MPN on file before disbursing a loan. If the lender finds that a loan was disbursed before receiving a completed MPN, the lender should ask the school to return the loan funds and redispurse the loan. If the lender finds that the borrower's

signature date is in error, the lender may permit the borrower to line through the incorrect signature date, write in the correct date, and initial the change.

Q15: If a lender sells a loan to another lender, how will schools eligible to participate in the multi-year feature be notified since the student has now changed lenders and a new MPN is required?

A15: The sale of a student's loan(s) will not always require that the student change lenders. The right to originate subsequent loans under an existing MPN may be negotiated between the loan seller and the purchaser. In many cases, the purchaser of student loans will be an entity, such as a secondary market, that is not authorized to originate Federal Stafford Loans, and the seller will retain the right to originate subsequent loans for the student under the existing MPN. A new MPN also is not required if a student's lender changes as the result of a merger or acquisition, or if the loans are sold and the purchasing lender assumes the right to offer subsequent loans under the existing MPN. Upon acquisition of the borrower's existing loans, the borrower is notified of this transfer and of the option to use the new lender or select another FFEL Program lender.

When circumstances require the student to complete a new MPN, the school is not responsible for collecting it. A school should make no changes to its procedures for submitting a new loan certification to the student's choice of lender. That lender will determine whether the student must complete a new MPN. A school that wishes to identify the current holder of a borrower's loans may consult the school's files, the financial aid history section of the ISIR, or the NSLDS. However, the current holder will not always be the lender who retains the right to originate subsequent loans for the student under the multi-year MPN feature.

The CommonLineSM 4 file format does include a serial loan field (Field 88). The CommonLineSM format requires this field to be filled with either "N", denoting the need for a new MPN, or "S", denoting a serial loan.

Q16: Does Field 14B on the MPN authorize a school to transfer loan proceeds received by EFT or master check to the student's account at the school? What if the student does not want funds delivered via EFT?

A16: Yes. The MPN authorizes the school to transfer funds received by EFT (or master check) to the student's account at the school. If the student does not wish to receive funds by EFT, the student must notify the school or lender (who must, in turn, notify the school) and the school or lender must accommodate the student's request.

- If the school cannot obtain EFT authorization from the borrower, the school must issue a check to the borrower for the full amount of the disbursement. The school cannot apply the funds to the student's account and then issue a check for the remaining proceeds, since that action

constitutes delivery of funds received by EFT without the student's authorization.

Q17: Field 14E on the MPN authorizes the lender to defer and align the repayment of principal on all of the student's FFEL Program loans that are in repayment status. This authorization is accomplished when the student signs the MPN. If the student does not want his or her prior FFEL Program loans to be deferred, what must the student do?

A17: The student must notify the lender. The lender must obtain and retain documentation of the student's request. In the event the student fails to make scheduled payments as requested while in school, the lender should process an in-school deferment through the anticipated graduation date certified by the school and should resolve any delinquency that may exist.

Q18: Field 14E on the MPN also authorizes the lender to capitalize unpaid interest that accrues on unsubsidized loans that are in an in-school status, as well as prior FFEL Program loans the student has requested to be deferred while he or she is in school. If the student wishes to pay the accruing interest on unsubsidized loans while he or she is in school, what must the student do?

A18: The student must check the box under Field 12 of the MPN that states, "I want to pay unsubsidized interest while I am in school." If the borrower fails to make interest payments as requested, the lender must notify the borrower that he or she has 30 days to remit the delinquent interest payment. This notification also may be provided to the borrower on the application and promissory note, repayment schedule, deferment or forbearance form, as applicable, or other written notification provided to the borrower in the course of servicing the loan. If the borrower does not pay delinquent interest within the 30-day period, the lender may capitalize the unpaid accrued interest in accordance with existing regulations and statutes. See *Common Manual* subsection 7.7.B. for more information.

Q19: How will a lender notify the MSLP if a valid MPN has been received?

A19: Automated Transfer of Money (ATOM) lenders currently notify the MSLP through e*CLIPS. Subsequent loans under an existing MPN may be automatically verified for the ATOM process at the lender's request. The lender remains responsible for ensuring that a valid MPN is on file prior to disbursing the loan funds.

Q20: Why does the lender need to notify the MSLP that a valid MPN exists?

A20: The promissory note validation is required before ATOM loans may be disbursed. However, the MSLP does not require non-ATOM loans to be verified at this time.

Q21: Will a lender provide the MPN as was the case with the common Federal Stafford Loan application?

A21: Yes. The school may still request that a lender provide the MPN, with or without the lender information, as indicated in the Q/A immediately below.

Q22: Could Field 8 on the MPN (Lender Name, City, State, Zip Code) and Field 9 (Lender Code) be pre-filled with the lender's information?

A22: Yes. The lender may pre-print the appropriate information in Fields 8 and 9. The lender may choose to pre-print MPNs with their name and address in the upper right box on the form, above the MSLP contact information. If the student wants to borrow from another lender, the borrower can line through the old information, write in the correct information, and initial the field. The lender also may choose to pre-print school certification forms with the lender and/or school information.

Q23: Does the MPN have carbon pages?

A23: Yes. The MSLP-printed MPN has a four-ply carbon: lender copies 1 and 2; school copy 3; borrower copy 4.

Q24: How will the MSLP's servicer know that it needs to print a new MPN for a school that requires a new MPN for all transfer students?

A24: A school that transmits certifications electronically may request the MSLP's servicer to print an MPN. The ability to make such a request is incorporated into software utilized by the school for electronic certification transmission. The CommonLineSM 4 processing type code "GP" (guarantee and print) will indicate that an MPN must be printed. The MSLP's servicer will then mail the MPN to the student.

A school that submits a school certification to the lender manually must either ask the lender to print an MPN or send the lender a completed and signed MPN accompanied by the completed school certification form. See Chapter 9, "MOSTARS Electronic Processing," Section 5, for more information regarding the logic for determining whether an MPN should be generated.

Q25: What revisions, if any, were made to the MSLP's Notice of Loan Guarantee and Disclosure Statement (NOG) to accommodate the new MPN process?

A25: The MSLP added interest rate information and the Plain Language Disclosure (PLD) verbiage to the back of the NOG. The MSLP also added a field to note whether the loan represented on the NOG is a new or subsequent loan made from an existing note. Since the NOG now includes Federal Stafford and Federal PLUS loan interest rate formula information, a separate addendum to the NOG is no longer necessary.

Q26: Does the MSLP determine whether a loan is a new loan or a subsequent loan made under an existing note for the purposes of printing an MPN?

A26: Yes. The MSLP implemented logic for its database to determine if a loan has been made with the borrower/lender relationship indicated on the loan record. If the school transmits the loan as “serial” and “GP” (guarantee and print), the system will search the database to determine if an MPN exists for the borrower. If there is not an MPN for the borrower, the system will print the MPN and mail it to the borrower. If a valid MPN does exist, the loan will guarantee and an MPN will not be printed. The lender is still ultimately responsible for ensuring that a valid, signed MPN is on file before disbursing the funds.

Q27: How can I obtain a supply of MPNs and School Certification Forms?

A27: MSLP participants may access the MSLP Forms Order Form from the MOSTARS web page at www.mostars.com. MSLP participants may also e-mail the request directly to the MSLP’s servicer at forms@guarantec.com. PDF files of the MPN and common PLUS application are also available on the MOSTARS web site. Student or parent borrowers may partially complete and print a promissory note for submission to the school or lender.

Section 5: Federal PLUS Application and Promissory Note

To receive a Federal PLUS loan, a parent must complete the common Federal PLUS Loan Application and Promissory note approved by the USDE. The student benefiting from the Federal PLUS loan funds must also complete a portion of the PLUS loan application. A school may not assess a fee for the completion or certification of a Federal PLUS loan application.

The lender is responsible for ensuring the application has been properly completed and certified by the appropriate parties and that the promissory note has been signed. In determining whether a parent borrower meets eligibility requirements, the lender may rely in good faith on the information provided by the borrower and school during the application process. The lender is not required to verify loan information independently unless it has reason to believe that the information reported on the application/promissory note is incorrect.

Helpful Hint:

- The Federal PLUS Loan Application and Promissory Note is available on the MOSTARS web site at www.cbhe.state.mo.us/forms/ffelpforms.htm. Samples are located in Appendix F of the *Common Manual*.

FAFSA Completion

Generally, if the only type of federal student assistance requested is a Federal PLUS loan, the student is not required to complete the Free Application for Federal Student Aid (FAFSA). However, if the school anticipates delivering Federal PLUS funds late, the student must complete a FAFSA in order for the school to have received an output document with an official expected family contribution (EFC) prior to the student's last date of at least half-time enrollment.

Borrower Section

On the borrower section of the loan application, the parent borrower must provide his or her name, address, date of birth, Social Security number, driver's license number (if applicable), two personal references, and a requested loan amount. The parent borrower must also provide a lender's name. If the borrower does not have a lender, the school may provide a list of lenders, but the borrower must be permitted to choose his or her lender. The borrower must read, sign, and date the application/promissory note.

Lender Section

On the lender section of the loan application, the lender must provide its name, address, telephone number, and lender code. The lender must also complete the approved loan amounts and certify the loan application by signing and dating the form.

School Section

On the school section of the loan application, the school must provide the loan period, grade level, enrollment status, anticipated graduation date, and the recommended disbursement dates. The school also must provide its name, address, telephone number and school code. The school must then sign (certify) and date the loan application.

While cost of attendance (COA), estimated financial assistance (EFA), and EFC remain on the loan application, schools are no longer required to certify these data elements to the lender. However, schools must continue to document, maintain, and produce upon request, information concerning the student's COA, EFC, and EFA.

The following sections explain elements common to both the Federal PLUS Application and Promissory Note and the Master Promissory Note School Certification.

Section 6: Loan Period

The period of enrollment or loan period to which the application refers is the period for which the loan is intended. This period must coincide with one or more of a school's academic terms (such as an academic year, semester, trimester or quarter, or other nonstandard term), for schools that use terms. Loan periods for schools that do not use terms are generally based on the length of the program or academic year. The cost of attendance (COA), estimated financial assistance (EFA), and expected family contribution (EFC) used to calculate eligibility must relate to the loan period.

- **Exception:** If a school charges tuition and fees to a student at the beginning of a program that is longer than an academic year, the COA used to determine eligibility should include the full amount of the tuition and fees charged in the period of enrollment in which the loan is made. For example, a school with an 1,800 clock-hour program defines its academic year as 900 clock hours and charges each student the full \$3,000 in tuition and fees at the beginning of the program. An enrolling student may receive two Federal Stafford Loans during the program because the program exceeds one academic year. The tuition and fees component of the COA for the first Federal Stafford Loan is \$3,000. There is *no* tuition and fees component in the COA for the second Federal Stafford Loan. (See chapter 6 of this guide for more information on COA components.)

Minimum Loan Period Length

The minimum period for which a loan may be certified, for a program that measures progression credit hours and uses terms, is a single academic term. For all clock-hour programs or credit-hour programs that do not use terms, the *minimum* period for which the school may certify a loan is the shortest of the following periods:

- The academic year as defined by the school. For more information, see "Academic Year Requirements" in the federal *Student Financial Aid Handbook*, Institutional and Program Eligibility Section, Chapter 2.
- The length of the student's program at the school
- The remaining portion of the student's program that exceeds the school's academic year

In the case of a student who has already completed some of the coursework toward program completion (e.g., a transfer student or a student who re-enrolls after withdrawing), a school may certify a loan for the remaining period of study.

Maximum Loan Period Length

The *maximum* loan period is generally the school's academic year, but it cannot exceed a 12-month period.

Loan Period Overlaps Award Years

If a school session overlaps two award years, the financial aid administrator has the discretion to decide to which of the two award years the loan period will apply. If a student in a session that overlaps two award years is also receiving campus-based assistance, both the loan and the campus-based assistance must apply to the same award year.

Retroactive Loan Periods

If a student or parent borrower gains eligibility or, for other reasons, the school certifies a Federal Family Education Loan (FFEL) Program loan after the beginning of the enrollment period, the loan may retroactively cover the entire period of enrollment, as long as that period of enrollment does not exceed the maximum loan period allowed, and the borrower is otherwise eligible.

Section 7: Grade Level

The academic level of the student for the loan period should be recorded in the grade level field. The proper grade level indicator should be selected from the codes on the following page.

Hard copy Code	Electronic Code	Grade Level
1	01	Freshman/first year (including proprietary programs that are less than one year)
2	02	Sophomore/second year
3	03	Junior/third year
4	04	Senior/fourth year
5	05	Fifth year/other undergraduate (including sixth-year undergraduate and continuing education students)
A	06	First-year graduate/professional
B	07	Second-year graduate/professional

Hard copy Code	Electronic Code	Grade Level
C	08	Third-year graduate/professional
D	09	Beyond third-year graduate/professional

Helpful Hint:

- For detailed information about grade level determinations, refer to Chapter 6, Section 3, “Annual Loan Limits.”

Section 8: Enrollment Status

The Federal Family Education Loan (FFEL) Program requires a student to be enrolled at least half time to receive assistance. A half-time student must be taking at least half of the course load of a full-time student.

Schools define the full-time workload. This measurement may differ from the definition used for other purposes at the school, such as the definition used by the registrar’s office. The school’s definition of a full-time workload for a program must be used for all students enrolled in that program and must be the same definition for all student financial assistance (SFA)-related purposes, including loan deferments. A school must establish the definition of full-time enrollment status for each of its programs of study.

A full-time student is a student who is carrying a full-time academic workload. The school may include any combination of courses, work, research, or special studies in its definition of workload. For undergraduate students, the school must define full-time status to meet at least the following minimums:

- 12 semester/trimester hours or 12 quarter hours per academic term in an educational program using a semester, trimester, or quarter system
- 24 semester/trimester hours or 36 quarter hours per academic year for an educational program using credit hours but not using a semester, trimester, or quarter system, or the prorated equivalent for a program of less than one academic year
- 24 clock hours per week for an educational program using clock hours
- A series of courses or seminars equaling 12 semester/trimester or quarter hours over a maximum of 18 weeks

A student taking only correspondence courses is never considered to be enrolled more than half time.

Remedial Coursework

Determining the enrollment status for students taking remedial coursework may cause problems as schools may either give no credit or give reduced credit for such coursework. However, because there is a credit or clock hour limit on the amount of remedial coursework for which the student can be paid, the school must be able to determine how many credit or clock hours of coursework in which the student is enrolled. To include noncredit remedial hours in the student's enrollment status, a school must determine the number of hours of study that the remedial course requires and compare that number with the hours required for similar nonremedial courses. To determine a student's enrollment status, a school should add the number of credit or clock hours assigned to the noncredit course to the credit or clock hours of regular coursework.

A school cannot count noncredit remedial hours when determining enrollment status if the noncredit remedial course is part of a program that leads to a high school diploma or a General Educational Development (GED). A student is never permitted to receive funds for GED training or for high school, even if the postsecondary courses are offered in the high school curriculum or secondary coursework is required for completing the postsecondary program. A postsecondary student is not permitted to receive SFA funds while he or she is simultaneously enrolled in an elementary or secondary school.

The enrollment status of the student determines the cost of attendance (COA). For students enrolled half time, the COA figure must be adjusted to reflect this status; the amounts used for tuition/fees and books/supplies are generally half the amounts used for full-time students enrolled in the same program of study. Other components of the COA are generally not affected by the student's enrollment status. For example, a student's room and board would remain the same if he or she were enrolled full time or half time.

Section 9: Anticipated Graduation Date

The anticipated graduation date (AGD) is the date the student is expected to complete course requirements for the program of study at the school that he or she is attending. The AGD is not the date that a diploma or certificate will be awarded or the date of a graduation or completion ceremony. The AGD should be in a month/day/year (mm/dd/ccyy) format, for example 05/02/2004. If unsure of the specific date that the student will graduate, a school may use the last day of the month.

Section 10: Scheduling Disbursement Dates

Multiple vs. Single Disbursement

In most cases, the disbursement schedule must ensure that a Federal Stafford or Federal PLUS loan is disbursed in two or more installments, regardless of the loan amount. No installment may exceed one-half of the loan amount.

There are several exceptions to the requirement that Federal Family Education Loan (FFEL) Program loans be scheduled for multiple disbursement:

- If the period of enrollment for which a loan is certified is not more than one quarter, trimester, semester, or four months (for programs with nonstandard terms or no terms), the school may schedule a single disbursement if its three most recent official cohort default rates were less than 10 percent
- If the student for whom a loan is certified is enrolled in an eligible study abroad program, the school may schedule a single disbursement provided its most recent official cohort default rate is less than 5 percent
- If the student for whom a loan is certified is attending a foreign school, the school may schedule a single disbursement

A school that is exempt from multiple disbursement rules by virtue of a low official cohort default rate must cease to certify loans based on the applicable exemption no later than 30 days after the date it receives notice from the U.S. Department of Education of an official cohort default rate that causes the school to lose its exemption eligibility.

Disbursement by Payment Period

The school is required to specify a disbursement schedule that provides for disbursements to be made on a payment period basis for each Federal Stafford and Federal PLUS loan application it certifies.

A school should assign disbursement dates with which the lender may reasonably comply. The school should provide the dates on which they would expect the lender to issue the paper check, master check, or generate the electronic funds transfer (EFT) transaction, allowing for necessary mailing and processing time, *not* the date on which the school anticipates receiving the funds. In addition, the school must schedule disbursement dates that comply with earliest possible delivery and, as applicable, late delivery timeframes. To ensure compliance with time frames for delivery or return of funds – commonly known as the “3 + 10 + 10” or “30 + 10 + 10” rules – schools should not request funds too far in advance of the date the school expects to be able to confirm the student’s continued eligibility and pay the student or parent borrower.

A lender must adhere to the school's scheduled disbursement dates or any modification to that schedule requested by the school or the guarantor on the school's behalf. A lender is not permitted to disburse funds earlier than the school's scheduled disbursement date.

Helpful Hint:

- Schools should refer to Chapters 10 and 11 of this guide for more detailed information concerning the following: payment period structure for different types of programs (Chapter 10); earliest possible disbursement and delivery dates (Chapter 11, Section 2); late delivery (Chapter 12, Section 3), disbursement hold and release (Chapter 11, Section 3).

Section 11: School Certification Responsibilities

The signature from a school official acknowledges that they have read and agreed to the provisions on the Master Promissory Note (MPN) School Certification Form or in the School Certification section of the Federal PLUS Loan Application and Promissory Note. The school official must sign the application, print his or her name, and provide the date of certification unless the information is being submitted electronically.

Schools should be mindful of the responsibilities incurred in certifying a borrower's eligibility for a loan. At the time of certification, the school attests to all of the following:

- The student is accepted for enrollment on at least a half-time basis in a program that is eligible for the loan type(s) certified.
- The student is making satisfactory academic progress in the program.
- The student or parent borrower is eligible, under all applicable regulations and statutes for, the amount certified.
- The student or parent borrower is not incarcerated.
- The disbursement schedule complies with all regulatory and statutory requirements; if necessary, the school authorizes the lender or guarantor to adjust the disbursement schedule to ensure compliance.
- The borrower will be provided with the following:
 - ✓ Confirmation of any electronic funds transfer or master check transfer to the student's account
 - ✓ An opportunity to cancel or reduce any loan disbursement

- In the case of a Federal Stafford Loan, the following is certified:
 - ✓ The student's eligibility for a Federal Pell Grant has been determined.
 - ✓ The student meets the requirements of the Selective Service Act.

Common Errors to Avoid

- Certifying a loan for more than the amount the borrower is eligible to receive
- Certifying a loan for a student who is not making satisfactory academic progress
- Certifying a loan for a student who is enrolled in an ineligible program or attending an ineligible branch campus
- Certifying a loan for an ineligible student
- Certifying more than one loan for the same student, resulting in a loan that exceeds the student's need and/or annual or aggregate limit
- Clerical or data entry errors that occur during loan certification

Section 12: Loan Certification Checklist

A school may find the loan certification checklist that follows to be a useful tool.

Loan Certification Checklist

- ❑ Determine the student's dependency status, enrollment status, and grade level.
- ❑ Confirm that the student is maintaining satisfactory academic progress as defined by the school.
- ❑ Obtain certification from the student (and parent in the case of a Federal PLUS loan) that he or she is not in default on any SFA loan and does not owe an overpayment on any SFA grant.
- ❑ For a subsidized Federal Stafford Loan do all of the following:
 - ✓ Determine the student's Federal Pell Grant eligibility, and, if eligible, ensure that the student has applied for a Federal Pell Grant.
 - ✓ Ensure that the loan amount does not exceed the student's demonstrated financial need.
- ❑ Review the student's financial aid history records from NSLDS:
 - ✓ Verify information concerning previous loans or grants.
 - ✓ Determine that the total loan amount certified for the current period of enrollment does not cause the borrower to exceed annual or aggregate limits.
- ❑ Ensure that the loan disbursement schedule provided on every certification meets the regulatory requirements for disbursement.
- ❑ Prorate Federal Stafford Loan annual limits for undergraduate borrowers in programs of study that are shorter than an academic year and for the remaining portion of a program when the remaining portion is less than an academic year.
- ❑ For an unsubsidized Federal Stafford Loan, first determine the student's eligibility for a subsidized Federal Stafford Loan.
- ❑ For an unsubsidized Federal Stafford Loan or Federal PLUS loan, ensure that the loan amount will not exceed the difference between the student's COA and his or her EFA.
- ❑ Double-check the school's certification information for clerical or data-entry errors.